

MARKET CONDUCT EXAMINATION REPORT
AS OF MARCH 31, 2005

Thrivent Financial for Lutherans
625 Fourth Avenue South
Minneapolis, MN 55415-1624

NAIC Company Code: 56014
NAIC Group No: 2938
Colorado Company No: 450

EXAMINATION PERFORMED
for the
STATE OF COLORADO
DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE

**Thrivent Financial for Lutherans
625 Fourth Avenue South
Minneapolis, MN 55415**

**MARKET CONDUCT
EXAMINATION REPORT
as of
March 31, 2005**

Examination Performed by

**Stephen E. King, CIE
Jo-Anne G. Fameree, CIE, FLMI, AIRC, ACS**

Independent Market Conduct Examiners

November 3, 2005

The Honorable David F. Rivera
Insurance Commissioner
State of Colorado
1560 Broadway, Suite 850
Denver, Colorado 80202

Commissioner:

A market conduct examination of Thrivent Financial for Lutherans was conducted in accordance with and pursuant to §§10-1-203, 10-3-1106 and 10-14-605, Colorado Revised Statutes. This examination focused on the Company's life and annuity business. Examiners completed a review of underwriting, rating, complaints, producer licensing, policyholder service, marketing and sales, and claims practices. The records/files were examined at the Company's office, located at 4321 N. Ballard Road, Appleton, WI 54919.

The time period covered by the examination was from January 1, 2004 through March 31, 2005.

The results of the examination, herein, are respectfully submitted.

Stephen E. King, CIE

Jo-Anne G. Fameree, CIE, FLMI, AIRC, ACS

**MARKET CONDUCT
EXAMINATION REPORT
OF
THRIVENT FINANCIAL FOR LUTHERANS**

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. COMPANY PROFILE	5
II. PURPOSE AND SCOPE OF EXAMINATION	6
III. EXAMINERS' METHODOLOGY	8
IV. EXAMINATION REPORT SUMMARY	12
V. FACTUAL FINDINGS	13
A. Company Operations/Management	14
B. Marketing and Sales.....	17
G. New Business Underwriting Practicing and Rating.....	20
VI. SUMMARY OF ISSUES AND RECOMMENDATIONS	22
VII. EXAMINATION REPORT SUBMISSION	23

COMPANY PROFILE

Thrivent Financial for Lutherans (“Thrivent” or “Company”) originally operated as Aid Association for Lutherans, which was domiciled in Appleton, Wisconsin and Lutheran Brotherhood, which was domiciled in Minneapolis, Minnesota. The aforementioned companies merged in 2002, to form Thrivent Financial for Lutherans. Thrivent was licensed to do business in the state of Colorado as a fraternal benefit society as of October 26, 1922. In Colorado, Thrivent is authorized to sell accident & health, annuities, general life and variable contracts.

COMPANY OPERATIONS AND MANAGEMENT

The Company is currently licensed and authorized to conduct business in all fifty (50) states and the District of Columbia.

Thrivent’s sales force is a “captive agency” system serving the Lutheran Community through a system of “Regional Financial Offices” that manage a network of approximately 3,025 “Financial Associates” who work with members to assess financial goals and needs and then recommend product and service solutions.

The Company’s marketing is integrated through four levels of the organization:

1. National (direct mail, advertising, etc., conducted from the headquarters).
2. Regional (advertising, mail, seminars, etc., approved by headquarters, but delivered by the Regional Financial Offices).
3. Local (Advertising, seminars, etc., approved by headquarters, but conducted by subgroups of the Regional Financial Offices, such as county or city-based groups within the region).
4. Individual (advertising, mailings, seminars, etc., approved by headquarters, conducted by individual financial associates).

Variable life insurance and annuity products are distributed through a third party registered broker dealer, Thrivent Investment Management Inc., which is a wholly owned subsidiary of Thrivent Financial for Lutherans.

The Company’s defined target market is the preretired market segment. Thrivent develops and executes marketing strategies that focus on the needs of members and prospects through targeted messaging and the financial representative through personalization.

In 2004, the Company’s life insurance business represented a 67.07% * share of the Colorado fraternal life insurance market, with direct premiums totaling \$27,487,000*. The Company’s annuity business in Colorado represented a 78.21% * share of the fraternal annuity market with annuity considerations totaling \$49,721,000 *.

* Data as reported by the NAIC and published in the “2004 Colorado Insurance Industry Statistical Report”.

PURPOSE AND SCOPE OF EXAMINATION

Independent Examiners, contracting with the Colorado Division of Insurance (DOI), in accordance with Colorado Insurance Law, §§ 10-1-201, 10-1-203 and 10-1-204 C.R.S., which allows the Commissioner the discretion and authority to schedule and conduct examinations for the purpose of auditing business practices of insurers, reviewed certain business practices of the Company. The findings in this report, including all work products developed in the production of this report, are the sole property of the Colorado Division of Insurance.

The purpose of the examination was to determine the Company's compliance with Colorado insurance laws related to individual life and annuity products. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

Examiners conducted the examination in accordance with procedures developed by the Colorado Division of Insurance, based on model procedures developed by the National Association of Insurance Commissioners. Examiners have relied primarily on records and materials maintained by the Company, generally covering the examination period from January 1, 2004 through March 31, 2005.

The examination included review of the following:

- Company Operations / Management
- Marketing and Sales
- Complaints
- Producers
- Underwriting - Forms / Policyholder Services
- Underwriting - Rating
- Underwriting - Applications
- Underwriting - Cancellations
- Claims

This examination report is a report written by exception. References to any practices, procedures or files, that contained no improprieties, were omitted. Therefore, the majority of the material reviewed may not be addressed in this report. In the course of the examination, Examiners issued the Company, Examination Memorandums and Comment Forms to obtain specific information and/or address noted discrepancies. When Examiners issue either form, the Company is required to provide a detailed response, within a specific time frame. Generally, only the Comment Form will cite a specific statute or regulation when a potential non-compliant situation is identified.

In most cases, an error tolerance level of plus or minus ten dollars (\$10.00) was allowed, where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero (\$0) tolerance level was applied in order to identify possible system errors. Additionally, a zero (\$0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's established policies, procedures, rules and/or guidelines.

When utilizing a sampling technique to select a sample file population for review, a minimum error tolerance level of five percent (5%) was established to determine reportable exceptions. However, if an issue appeared to be systemic or if, as a result of the file selection process, it was not possible to determine an exception percentage, an error tolerance percentage was not utilized. Also, if more than one sample population was reviewed in a particular area of the examination (e.g. timeliness of claims payment), and if one or more of the samples yielded an exception rate of five percent (5%) or more, the results of any other samples with exception percentages less than five percent (5%) were also included.

Examination findings may result in administrative action by the Division of Insurance. During the course of the examination, all unacceptable or non-complying practices of the Company may not have been discovered. However, failure to identify specific Company practices does not constitute acceptance of such practices. The contents of this report should not be construed to either endorse or discredit any insurance company or product.

EXAMINERS' METHODOLOGY

In accordance with §10-1-203, Colorado Revised Statutes, examiners reviewed the Company's business practices to determine compliance with Colorado insurance laws and regulations, as they pertain to transacting Life Insurance and Annuity business, as shown in the following exhibit.

Law/Regulation	Concerning
Section 10-1-108	Duties of Commissioner – reports – publications – fees – disposition of funds - adoption of rules.
Section 10-1-109	Rules and regulations of commissioner
Section 10-1-111	Grounds and procedure for suspension or revocation of certificate or license of entities.
Section 10-1-128(6)(a)	Anti-fraud Plan
Sections 10-2-1001 to 10-2-1101	Managing General Agent Act
Section 10-2-103	Licenses - General Provisions – Definitions
Sections 10-2-401 to 10-2-417	Licenses – Licensing and Appointment of Insurance Producers
Sections 10-2-701 to 10-2-704	Licenses – Business Conduct of Licensees
Section 10-3-105	Certificate of Authority
Section 10-3-109	Reports, statements, assessments, and maintenance of records - publication - penalties for late filing, late payment, or failure to maintain.
Sections 10-3-801 to 10-3-814	Insurance Holding Company Systems
Sections 10-3-1101 to 10-3-1104	Unfair Competition – Deceptive Practices
Sections 10-7-102 to 10-7-109	Individual Policy Provisions
Section 10-7-112	Interest Payable on Benefits or Proceeds
Section 10-7-113	Acceleration of Benefits
Section 10-7-302	Non-forfeiture Compulsory Policy Provisions
Sections 10-14-101 To 10-14-705	Fraternal Benefit Societies
Regulation 1-1-7	Market Conduct Record Retention
Regulation 1-1-8	Penalties And Timelines Concerning Division Inquiries And Document Requests
Regulation 1-2-9	Fees Charged by Agents/Brokers
Regulation 2-1-7	Concerning Issuance of a Certificate of Authority

Law/Regulation	Concerning
Regulation 4-1-2	Advertising and Sales Promotion of Life Insurance
Regulation 4-1-4	Concerning Replacement of Life Insurance or Annuity Contracts
Regulation 4-1-5	Permitting Same Minimum Non-forfeiture Standards for Men and Women Insured Under 1980 CSO and 1980 CET Mortality Tables
Regulation 4-1-11	Concerning Senior Protection in Annuity Transactions
Regulation 4-2-9	Concerning Non-Discriminatory Treatment of Acquired Immune Deficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Related Illness by Insurers of Life and Health Insurance
Regulation 6-1-1	Limiting Coverage
Regulation 6-1-3	Concerning Unfair Discrimination on the Basis of Blindness or Partial Blindness
Regulation 6-2-1	Complaint Record Maintenance

Company Operations / Management

Examiners verified the Certificate of Authority and reviewed Company management, administrative controls, as well as record retention practices.

The Company's cooperation during the course of the examination was noted.

Marketing and Sales

Examiners reviewed a sample population of fifty (50) annuity and fifty (50) life/general marketing and sales pieces. The sample populations were randomly selected from a total population of 278 annuity and 413 life/general marketing and sales pieces, which were used in Colorado during the examination period. The content of the material was reviewed to ensure compliance with Colorado insurance law, in addition to verifying accurate representation of the Company's products.

Complaints

Examiners reviewed the Company's complaint register and each complaint contained therein, as well as the Company's complaint handling procedures.

Producers

Examiners reviewed producer contracts and commission structures used during the examination period. In addition, commission records were reviewed to ensure that all 240 producers, receiving commissions or a percentage of premiums during the examination period, were properly licensed.

Underwriting – Forms / Policyholder Services

Due to the significant number of forms that were in effect during the examination period, Examiners reviewed a random selection of forms. Examiners confirmed that the appropriate filings had been submitted to the Colorado Division of Insurance. Additionally, compliance with Colorado insurance laws in effect during the examination period was verified.

New Business Underwriting Practices and Rating

Examiners reviewed a randomly selected population of fifty (50) life and fifty (50) annuity new business files from a total population of 1504 and 1,299, respectively.

The files were reviewed to ensure proper handling and to verify that Company underwriting guidelines and rates were consistently followed.

Examiners reviewed the entire population of fifty-nine (59) external life replacement files and a randomly selected sample of fifty (50) internal life replacement files, from a total population of 240. Additionally, Examiners reviewed the entire population of forty (40) internal annuity replacement files and a randomly selected sample of fifty (50) external annuity replacement files, from a total population of seventy (70).

Each file was reviewed to ensure that required disclosures were provided and underwriting was completed in a fair and consistent manner.

Underwriting – Declinations / Surrenders / Policy Loans

Examiners randomly selected the following file samples.

- Declined life policies; Selected fifty (50) files from a population of sixty-two (62).
- Declined annuity contracts; Selected fifty (50) files from a population of fifty (50)
- Life policies having policy loans; Selected fifty (50) files from a population of 2,509.
- Terminated life policies; Selected fifty (50) files from a population of 1,738.
- Terminated annuity policies, Selected fifty (50) files from a population of 489.

These files were reviewed to ensure timeliness of handling, accuracy of processing, and to verify that underwriting guidelines were consistently followed.

Claims

Examiners reviewed a randomly selected sample of fifty (50) paid life claims from a total population of 339 and the total population of two (2) closed-without-payment life claims.

Examiners reviewed a randomly selected sample of fifty (50) paid annuity claims, from a total population of 145.

Examiners reviewed the Company's claims handling guidelines and individual claim files, to determine timeliness of processing and accuracy of payment.

EXAMINATION REPORT SUMMARY

The examination resulted in a total of three (3) findings in which the Company did not appear to be in compliance with Colorado insurance laws. The following summarizes Examiner findings.

Company Operations / Management: In the area of Company Operations and Management, Examiners found one (1) area of concern. The identified issue is:

- Failure, in some cases, to maintain records required for market conduct purposes.

Marketing and Sales: In the area Marketing and Sales, Examiners found one (1) area of concern. The identified issue is:

- Failure to clearly set forth the most serious consequence for failure to obtain the Company's approval of advertising prior to use with the public.

Producers: In the area of Producers, no compliance issues or concerns were identified and thus are not addressed in this report.

Underwriting – Forms / Policyholder Services: In the area of Forms and Policyholder Services, no compliance issues or concerns were identified and thus are not addressed in this report.

New Business Underwriting Practices and Rating: In the area of New Business Underwriting Practices and Rating, Examiners found one (1) area of concern. The identified issue is:

- Failure, in some cases, to comply with replacement notification requirements, as the replacing Company in an annuity transaction.

Underwriting – Cancellations: In the area of Cancellation refunds, no compliance issues or concerns were identified and thus are not addressed in this report.

Claims: In the area of Claims, no compliance issues or concerns were identified and thus are not addressed in this report.

Results of previous Market Conduct Exams are available on the Colorado Division of Insurance's website at www.dora.state.co.us/insurance or by contacting the Colorado Division of Insurance.

A copy of the Company's response, if applicable, can be obtained by contacting the Company or the Colorado Division of Insurance.

MARKET CONDUCT EXAMINATION REPORT

FACTUAL FINDINGS

<p><u>Company Operations and Management</u></p>
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Issue A1: Failure, in some cases, to maintain records required for market conduct purposes.
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Colorado Regulation 1-1-7, Market Conduct Record Retention, provides in part:

Section 4. Records Required For Market Conduct Purposes

A. Every entity subject to the Market Conduct process shall maintain its books, records, documents and other business records in a manner so that the following practices of the entity subject to the Market Conduct process may be readily ascertained during market conduct examinations, including but not limited to, company operations and management, policyholder services, claim's practices, rating, underwriting, marketing, complaint/grievance handling, producer licensing records, and additionally for health insurers/carriers or related entities: network adequacy, utilization review, quality assessment and improvement, and provider credentialing. Records for this regulation regarding market conduct purposes shall be maintained for the current calendar year plus two prior calendar years.

B. Each producer of record, if the carrier does not maintain, shall maintain records for each policy sold, and the records shall contain all work papers and written communications in the producer's possession pertaining to the documented policy.

Section 5. Policy Records

A. The following records shall be maintained: A policy record shall be maintained for each policy issued. Policy records shall be maintained so as to show clearly the policy period, basis for rating and any imposition of additional exclusions from or exceptions to coverage. If a policy is terminated, either by the insurer or the policyholder, documentation supporting the termination and account records indicating a return of premiums, if any, shall also be maintained. Policy records need not be segregated from the policy records of other states so long as the records are readily available to market conduct examiners as required under this regulation.

B. Policy records shall include at least the following:

- (1) The actual, completed application for each contract, where applicable;
 - (a) The application shall bear the signature, either written or digitally authenticated, where required, of the applicant whenever the insurer intends to retain any right to contest any warranty, representation or condition contained in the application; or
 - (b) The application shall bear a clearly legible means by which an examiner can identify a producer involved in the transaction. The examiners shall be provided with any information needed to determine the identity of the producer;

(2) Any declaration pages (the initial page and any subsequent pages), the insurance contract, any certificates evidencing coverage under a group contract, any endorsements or riders associated with a policy, any termination notices, and any written or electronic correspondence to or from the insured pertaining to the coverage. A separate copy of the record need not be maintained in the individual policy to which the record pertains, provided it is clear from the insurer's other records or systems that the record applies to a particular policy and that any data contained in the record relating to that policy, as well as the actual policy, can be retrieved or recreated;

Life Declined Files

Population	Sample Size	Number of Exceptions	Percentage to Sample
62	50	5	10%

Fifty (50) of a population of sixty-two (62) files were reviewed in which the Company declined life insurance business. The file review revealed exceptions in five (5) files, representing 10% of the sample. In the five (5) instances noted, Company files did not contain, nor could the Company produce a copy of the letter sent to the applicant, in which coverage was declined.

Recommendation No. 1:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Regulation 1-1-7. In the event the Company is unable to show such proof; the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with the aforementioned insurance laws.

Marketing and Sales

Issue B1: Failure to clearly set forth the most serious consequence for failure to obtain the Company's approval of advertising prior to use with the public.
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Colorado Regulation 4-1-2 Advertising And Sales Promotion Of Life Insurance, promulgated under the authority of §§10-1-108(8), 10-1-109 and 10-3-1110, C.R.S. requires in part that:

Section 3. Scope

B. All advertisements, regardless of by whom written, created or presented the advertisement. Insurers shall establish and, at all times, maintain a system of control over the content, form and method of dissemination of all advertisements of its policies. A system of control shall include regular and routine notification, at least once a year, to producers, brokers and others authorized by the insurer to disseminate advertisements of the requirement and procedures for company approval prior to the use of any advertisements that is not furnished by the insurer and that *clearly sets forth within the notice the most serious consequence of not obtaining the required prior approval.* [Emphasis added.]

Thrivent Financial for Lutherans (Thrivent) provides its financial representatives with an annual advertising notification through its affiliate, Thrivent Investment Management, Inc. (Investment, Inc.). Investment, Inc. requires that all registered representatives complete an annual certification. Thrivent intended to utilize Investment Inc.'s annual certification to fulfill the requirements of the above referenced regulation, since 100% of the individuals authorized by Thrivent to disseminate advertisements in the State of Colorado, are Investment, Inc. registered representatives. However, Thrivent is not identified as a party to the Investment Inc. certification. Thrivent is only mentioned in the certification, in a statement that grants Investment Inc. and/or Thrivent, authorization to contact a consumer-reporting agency of their choice.

Additionally, the referenced certification does not appear to comply with the notification requirements of Regulation 4-1-2(3)(B), in that it does not "clearly set forth *within the notice* [emphasis added] the most serious consequence of not obtaining the required prior approval." Thrivent Investment Management, Inc.'s Annual Certification by Registered Representatives, addresses the need for prior approval of advertisements. The certification references the fact that the representative must conduct business in accordance with the Thrivent Investment Management Compliance Manual. The introduction of the referenced Compliance Manual states, "As a registered representative, it is your responsibility to read and comprehend this entire manual...To disregard the direction provided in this manual places you at risk for reprimands, fines or termination of your contract."

Based on the above information, it appears the Company is not in compliance with the requirements of Regulation 4-1-2, by not providing an annual notification regarding prior approval of advertisements and the most serious consequence of not obtaining such approval.

Recommendation No. 2:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Regulation §4-1-2. In the event the Company is unable to show such proof; the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with the aforementioned insurance laws.

UNDERWRITING – NEW BUSINESS PRACTICES AND RATING

Issue G1: Failure, in some cases, to comply with replacement notification requirements, as the replacing Company in an annuity transaction.

Colorado Repromulgated Regulation 4-1-4 Replacement of Life Insurance Policies and Annuities, provides, in part,

Section 7. Duties of Replacing Insurers that Use Producers

A. Where a replacement is involved in the transaction, the replacing insurer shall:

(1) Verify that the required forms are received and are in compliance with this regulation;

(2) Notify any other existing insurer that may be affected by the proposed replacement within five (5) business days of receipt of a completed application indicating replacement or when the replacement is identified if not indicated on the application, and mail a copy of the available illustration or policy summary for the proposed policy or available disclosure document for the proposed contract within five (5) business days of a request from an existing insurer;

Replacing Insurer, Annuity Replacement Transaction

Population	Sample Size	Number of Exceptions	Percentage to Sample
70	50	3	6%

Fifty (50) of seventy (70) files were reviewed in which the Company was the replacing insurer in an annuity replacement transaction. The file review revealed exceptions in three (3) files, representing 6% of the sample. In two (2) of the instances noted, the Company failed to notify the existing insurers of the proposed replacement within five (5) business days of receipt of a completed application. In the one (1) remaining instance, no letter was sent.

Recommendation No. 3:

Within thirty (30) days, the Company should provide documentation demonstrating why it should not be considered in violation of Colorado Regulation 4-1-4. In the event the Company is unable to show such proof; the Company should provide evidence to the Division of Insurance that it has taken steps to ensure compliance with the aforementioned insurance laws.

SUMMARY OF ISSUES AND RECOMMENDATIONS

ISSUES	Rec. No.	Page No.
COMPANY OPERATIONS AND MANAGEMENT		
Issue A1: Failure, in some cases, to maintain records required for market conduct purposes.	1	16
MARKETING AND SALES		
Issue B1: Failure to clearly set forth the most serious consequence for failure to obtain the Company's approval of advertising prior to use with the public.	2	19
UNDERWRITING – NEW BUSINESS PRACTICES AND RATING		
Issue G1: Failure, in some cases, to comply with replacement requirements, as the replacing Company in an annuity transaction.	3	21

Independent Market Conduct Examiners

**Stephen E. King, CIE
Jo-Anne G. Fameree, CIE, FLMI, AIRC, ACS
for
The Colorado Division of Insurance
1560 Broadway, Suite 850
Denver, Colorado 80202**